

**Davison Township
Genesee County, Michigan**

**Financial Report
June 30, 2008**

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Introductory Section

Davison Township

List of Elected Officials June 30, 2008

Kurt Soper	Supervisor
Patrick R. Miller	Treasurer
Karen Miller	Clerk
Timothy W. Elkins	Trustee
Matthew D. Karr	Trustee

Financial Section



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Independent Auditor's Report

The Honorable Members
of the Township Board
Davison Township
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Davison Township, Michigan (Township) as of and for the year ended June 30, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Davison Township, Michigan at June 30, 2008, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Davison Township's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Plante & Moran, PLLC

October 30, 2008

Management's Discussion and Analysis

Davison Township

Management's Discussion and Analysis

This section of the Davison Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the Township's financial statements, which follow this section.

Financial Highlights

- The Township's Total Net Assets are \$26.26 million. Unrestricted net assets were \$12.3 million.
- During the year, the Township's governmental expenses were \$484,499 less than the \$5,580,997 generated in taxes and other revenues for governmental programs. Capital grants of \$66,119 were utilized to purchase new infrastructure not shown as a governmental expense.
- General Fund revenue exceeded expenditures by \$541,065.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

Financial Analysis of the Township as a Whole

Net assets

The Township's governmental activities net assets are \$14.5 million. The unrestricted governmental activities net assets are \$8.9 million. Business-type activities net assets are \$11.8 million with \$8.4 million being invested in capital assets net of related debt.

Governmental Activities

The Township's governmental revenues were \$5.6 million this year. Property taxes were \$1.3 million or 23% of the total revenues. The Township's total governmental revenue decreased by approximately \$583 thousand. This decrease is a result of the following: \$620,720 in capital grant and contribution revenue from a road special assessment and trail grant in the prior year, and a \$7,000 decrease in state shared revenue, offset by a \$75,000 increase in property taxes and police assessment revenue. The Township's total governmental expenses increased approximately \$257 thousand.

Business-Type Activities

Operating revenues of the Township's business-type activities increased approximately \$285 thousand from the prior year of \$2,579,732 to the current year total of \$2,864,747. Operating expenses decreased by approximately \$181 thousand. The major factors contributing to the expense decrease were the following items incurred in the previous year that were not necessary again in the current year: fitting and video taping of sewer and water lines, assessing the system, and making the necessary repairs identified in the system assessment.

Davison Township

Management's Discussion and Analysis (Continued)

Davison Township's Net Assets

	Government Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 9,389,455	\$ 9,051,078	\$ 5,177,983	\$ 5,703,886	\$14,567,438	\$14,754,964
Capital assets	5,275,416	5,150,036	8,360,211	8,063,947	13,635,627	13,213,983
Total assets	<u>\$14,664,871</u>	<u>\$14,201,114</u>	<u>\$13,538,194</u>	<u>\$13,767,833</u>	<u>\$28,203,065</u>	<u>\$27,968,947</u>
Long-term liabilities						
outstanding	\$ 9,291	\$ -	\$ 1,303,721	\$ 1,321,981	\$ 1,313,012	\$ 1,321,981
Other liabilities	196,947	226,980	436,219	768,100	633,166	995,080
Total liabilities	<u>\$ 206,238</u>	<u>\$ 226,980</u>	<u>\$ 1,739,940</u>	<u>\$ 2,090,081</u>	<u>\$ 1,946,178</u>	<u>\$ 2,317,061</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 5,263,191	\$ 5,150,036	\$ 8,360,211	\$ 7,908,947	\$13,623,402	\$ 13,058,983
Restricted	275,649	260,504	-	-	275,649	260,504
Unrestricted	8,919,793	8,563,594	3,438,043	3,768,805	12,357,836	12,332,399
Total net assets	<u>\$14,458,633</u>	<u>\$13,974,134</u>	<u>\$11,798,254</u>	<u>\$11,677,752</u>	<u>\$26,256,887</u>	<u>\$25,651,886</u>

Davison Township's Changes in Net Assets

	Government Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 1,177,470	\$ 1,251,123	\$ 2,864,747	\$ 2,579,732	\$4,042,217	\$ 3,830,855
Operating grants and contributions	95,278	123,343	-	-	95,278	123,343
Capital grants and contributions	66,119	687,449	303,533	701,735	369,652	1,389,18
General revenues:						
Property taxes	1,254,489	1,242,181	-	-	1,254,489	1,242,181
Grants and contributions not restricted to specific programs	1,278,287	1,285,405	-	-	1,278,287	1,285,405
Other	1,697,099	1,562,304	383,402	2,018,303	1,945,706	
Total revenues	<u>5,568,742</u>	<u>6,151,805</u>	<u>3,489,484</u>	<u>3,664,869</u>	<u>9,058,226</u>	<u>9,816,674</u>
Expenses:						
Legislative	70,005	74,262	-	-	70,005	74,262
General government	1,102,380	1,138,301	-	-	1,102,380	1,138,301
Public works	1,130,175	985,695	-	-	1,130,175	985,695
Public safety	2,781,683	2,628,533	-	-	2,781,683	2,628,533
Water and sewer	-	-	3,368,982	3,556,794	3,368,982	3,556,794
Total expenses	<u>5,084,243</u>	<u>4,826,791</u>	<u>3,368,982</u>	<u>3,556,794</u>	<u>8,453,225</u>	<u>8,383,585</u>

Davison Township

Management's Discussion and Analysis (Continued)

Davison Township's Changes in Net Assets (continued)

	Government Activities		Business-type Activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Increase in net assets	484,499	1,325,014	120,502	108,075	605,001	1,433,089
Net assets - Beg of year	13,974,134	12,649,120	11,677,752	11,569,677	25,651,886	24,218,797
Net assets - End of year	<u>\$14,458,633</u>	<u>\$13,974,134</u>	<u>\$11,798,254</u>	<u>\$11,677,752</u>	<u>\$26,256,887</u>	<u>\$25,651,886</u>

Financial Analysis of the Township's Funds

As the Township completed the year, the General Fund reported a fund balance of \$8.4 million. This was an increase of \$541 thousand from the prior year.

Capital Assets

At the end of 2008, the Township had invested approximately \$13.6 million in capital assets, net of related debt. In the business-type activities during the year the southern water loop completion resulted in approximately \$486,000 in capital asset additions.

Davison Township Capital Assets (net of depreciation)

	Government Activities		Business-type Activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 851,150	\$ 851,150	\$ -	\$ -	\$ 851,150	\$ 851,150
Construction in progress	-	-	-	900,000	-	900,000
Buildings and system Improvements other than buildings	637,238	520,957	38,603	40,924	675,841	561,881
Furniture and equipment	38,662	47,245	-	-	38,662	47,245
Infrastructure	359,134	307,585	78,335	73,006	437,469	380,591
	3,389,232	3,423,099	8,243,273	7,050,017	11,632,505	10,473,116
Total	<u>\$5,275,416</u>	<u>\$5,150,036</u>	<u>\$8,360,211</u>	<u>\$8,063,947</u>	<u>\$13,635,627</u>	<u>\$13,213,983</u>

Long-term Debt

At the end of the current fiscal year, Davison Township had total debt outstanding for a capital lease of \$12,225.

Davison Township's Outstanding Debt

	Government Activities		Business-type Activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
General obligation bonds	\$ -	\$ -	\$ -	\$155,000	\$ -	\$155,000
Capital Lease	12,225	-	-	-	12,225	-
Total	<u>\$ 12,225</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$155,000</u>	<u>\$ 12,225</u>	<u>\$155,000</u>

Davison Township

Management's Discussion and Analysis (Continued)

Limitations on Debt

The State limits the amount of general obligation debt the Township can issue to 10% of the assessed value of all taxable property within the Township's corporate limits. Our legal debt limit is \$6.7 million.

General Fund Budgetary Highlight

Over the course of the year, the Township amended the budget to take into account events during the year.

Contacting the Township's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Davison Township Clerk's Department.

Basic Financial Statements

Government-wide Financial Statements

Davison Township

Statement of Net Assets June 30, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,351,424	\$ 790,418	\$ 2,141,842
Investments	6,377,877	4,070,537	10,448,414
Receivables:			
Accounts	30,983	203,762	234,745
Accrued interest receivable	43,039	22,696	65,735
Special assessments	814,299	-	814,299
Water and sewer tap-ins	-	47,139	47,139
Unbilled receivable	-	521,033	521,033
Due from other governments	228,225	-	228,225
Internal balances	477,602	(477,602)	-
Prepaid expenses	66,006	-	66,006
Capital assets			
Assets not subject to depreciation	851,150	-	851,150
Asset subject to depreciation	4,424,266	8,360,211	12,784,477
Total assets	14,664,871	13,538,194	28,203,065
Liabilities			
Accounts payable	113,410	814	114,224
Deposits	45,670	5,991	51,661
Due to other governments	-	429,414	429,414
Accrued and other liabilities	34,933	-	34,933
Noncurrent liabilities:			
Capital lease due within one year	2,934	-	2,934
Capital lease due in more than one year	9,291	-	9,291
Contractor advances	-	1,303,721	1,303,721
Total liabilities	206,238	1,739,940	1,946,178
Net Assets			
Invested in capital assets - Net of related debt	5,263,191	8,360,211	13,623,402
Restricted for:			
Disaster relief	1,740	-	1,740
Solid waste disposal	204,878	-	204,878
Lighting districts	69,031	-	69,031
Unrestricted	8,919,793	3,438,043	12,357,836
Total net assets	\$ 14,458,633	\$ 11,798,254	\$ 26,256,887

Davison Township

Functions\Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 1,102,380	\$ 302,943	\$ 62,899
Legislative	70,005	-	-
Public safety	2,781,683	245,806	32,379
Public works	1,130,175	628,721	-
Total governmental activities	5,084,243	1,177,470	95,278
Business-type activities			
Water and sewer	3,368,982	2,864,747	-
Total business-type activities	3,368,982	2,864,747	-
Total primary government	\$ 8,453,225	\$ 4,042,217	\$ 95,278
General revenues:			
Property taxes			
State shared revenue			
Investment earnings			
Franchise fees			
Police millage assessment			
Loss on sale of capital assets			
Miscellaneous			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - Ending of year			

Statement of Activities Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets			
Capital Grants and Contributions	Primary Government		Total
	Governmental Activities	Business-type Activities	
\$ -	\$ (736,538)	\$ -	\$ (736,538)
-	(70,005)	-	(70,005)
-	(2,503,498)	-	(2,503,498)
66,119	(435,335)	-	(435,335)
66,119	(3,745,376)	-	(3,745,376)
303,533	-	(200,702)	(200,702)
303,533	-	(200,702)	(200,702)
\$ 369,652	(3,745,376)	(200,702)	(3,946,078)
	1,254,489	-	1,254,489
	1,278,287	-	1,278,287
	395,895	321,204	717,099
	223,595	-	223,595
	1,076,352	-	1,076,352
	(12,255)	-	(12,255)
	13,512	-	13,512
	4,229,875	321,204	4,551,079
	484,499	120,502	605,001
	13,974,134	11,677,752	25,651,886
	\$ 14,458,633	\$ 11,798,254	\$ 26,256,887

Fund Financial Statements

Davison Township

Governmental Fund - General Fund Balance Sheet June 30, 2008

Assets

Cash and cash equivalents	\$ 1,351,424
Investments	6,377,877
Receivables:	
Accounts	30,983
Special assessments	814,299
Accrued interest	43,039
Due from other governments	228,225
Due from other funds	477,602
Prepaid costs	66,006
	<hr/>
Total assets	\$ 9,389,455

Liabilities and Fund Balance

Liabilities

Accounts payable	\$ 113,410
Deposits	45,670
Accrued salaries and wages	34,933
Deferred revenue	814,299
	<hr/>
Total liabilities	1,008,312

Fund Balance

Reserved for:	
Prepays	66,006
Disasters	1,740
Solid waste disposal	204,878
Lighting districts	69,031
Unreserved, undesignated	8,039,488
	<hr/>
Total fund balance	8,381,143
	<hr/>
Total liabilities and fund balance	\$ 9,389,455

Davison Township

Governmental Fund - Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended June 30, 2008

Fund balance reported in governmental funds	\$ 8,381,143
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	5,275,416
Special assessments receivable are expected to be collected over several years and are not available to pay for current expenditures	814,299
Capital lease obligations are not due and payable in the current period and are not reported in the funds	<u>(12,225)</u>
Net Assets - Governmental Activities	<u><u>\$ 14,458,633</u></u>

Davison Township

Statement of Revenue, Expenditures, and Changes in Fund Balance Governmental Fund - General Fund Year Ended June 30, 2008

Revenue

Property taxes	\$ 1,254,489
Licenses and permits	100,364
Intergovernmental:	
Federal grants	92,153
State-shared revenue and grants	1,280,349
Local donations	65,243
Charges for services	228,089
Fines	64,347
Interest	395,895
Special assessments	1,984,380
Miscellaneous	285,409
	<hr/>
Total revenue	5,750,718

Expenditures

Current

Legislative:	
Township board	70,005
General government:	
General government	227,061
Supervisor	148,805
Clerk	205,476
Treasurer	125,714
Township hall and grounds	341,145
Assessing department	172,780
Public safety:	
Police	2,226,587
Fire	318,579
Building inspection	278,302
Public works	1,095,199
	<hr/>
Total expenditures	5,209,653

Net Change in Fund Balance	541,065
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Fund Balance - Beginning of year	7,840,078
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Fund balance - End of year	<u><u>\$ 8,381,143</u></u>
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Davison Township

Governmental Fund - Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Fund - General Fund to the Statement of Activities Year Ended June 30, 2008

Net change in fund balance - General Fund \$ 541,065

Amounts reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation:

Capital outlay	513,672
Depreciation expense	(376,037)
Net book value of assets disposed of	(12,255)
Proceeds from capital lease	(14,670)

Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end (169,721)

Repayment of capital lease is an expenditure in the governmental fund, but not in the statement of activities (where it reduces long - term debt) 2,445

Change in net assets of governmental activities \$ 484,499

Davison Township

Proprietary Fund - Sewer and Water Fund Statement of Net Assets June 30, 2008

Assets

Current assets:

Cash and cash equivalents	\$ 790,418
Investments	4,070,537
Receivables:	
Accounts	203,762
Accrued interest receivable	22,696
Tap-in receivables - current	18,158
Unbilled fees receivable	521,033

Total current assets	5,626,604
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Noncurrent assets:

Tap in receivables - noncurrent	28,981
Capital assets-net of accumulated depreciation	8,360,211

Total noncurrent assets	8,389,192
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Total assets	14,015,796
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Liabilities

Current liabilities:

Accounts payable	814
Deposits	5,991
Due to other governmental units	429,414
Due to other funds	477,602

Total current liabilities	913,821
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Noncurrent liabilities:

Contractor's advances	1,303,721
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Total liabilities	2,217,542
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Net Assets

Investment in capital assets	8,360,211
Unrestricted	3,438,043

Total net assets	\$ 11,798,254
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Davison Township

Proprietary Fund - Sewer and Water Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

Operating Revenue

Charges for services	\$ 2,791,673
Water meters	2,774
Miscellaneous revenue	70,300

Total operating revenue	<u>2,864,747</u>
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Operating Expenses

Personnel services	537,064
Sewer and water usage and billing fees	2,283,968
Insurance	7,902
Utilities	102,805
Maintenance and repair	55,965
Depreciation	349,798
Miscellaneous	23,313

Total operating expenses	<u>3,360,815</u>
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Operating loss	(496,068)
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Nonoperating Revenue (Expenses)

Interest income	321,204
Interest expense and fiscal charges	(8,167)

Loss before contributions	(183,031)
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Capital contributions	<u>303,533</u>
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Change in net assets	120,502
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Net Assets - Beginning of year	<u>11,677,752</u>
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Net Assets - End of year	<u><u>\$ 11,798,254</u></u>
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Davison Township

Statement of Cash Flows Proprietary Fund - Sewer and Water Fund Year Ended June 30, 2008

Cash Flows from Operating Activities

Receipts from customers	\$ 2,771,779
Payment for interfund services and reimbursements	(319,922)
Payments to suppliers and employees	(2,799,834)
Net cash used in operating activities	<u>(347,977)</u>

Cash Flows from Capital and Related Financing Activities

Interest expense and fiscal charges	(8,167)
Payments on construction advances liability	(675)
New construction advance liability	134,415
Payments on long term debt	(155,000)
Purchase of capital assets	(646,062)
Capital contributions	303,533
Payments received on tap-ins	22,799
Net cash used in capital and related financing activities	<u>(349,157)</u>

Cash Flows from Investing Activities

Purchase of investments (net)	(857,764)
Interest on tap-ins	313,343
Net cash used in investing activities	<u>(544,421)</u>

Net Decrease in Cash and Cash Equivalents

(1,241,555)

Cash and Cash Equivalents - Beginning of year

2,031,973

Cash and Cash Equivalents - End of year

\$ 790,418

Reconciliation of Operating Loss to Net

Cash Used in Operating Activities

Operating loss	\$ (496,068)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	349,798
Change in assets and liabilities:	
Increase in accounts receivable	(30,506)
Decrease in accounts payable	(325,881)
Decrease in deposits	(3,000)
Increase in due to other funds	157,680
Net cash used in operating activities	<u><u>\$ (347,977)</u></u>

Notes to Basic Financial Statements

Note I - Summary of Significant Accounting Policies

A. Financial Reporting Entity

The accounting reporting of Davison Township conforms to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Township had no component units at June 30, 2008. The following is a summary of the significant accounting policies used by Davison Township.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds and proprietary funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as they are both measurable and available. Revenue is considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Note I - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, state revenue sharing, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

The government reports the following major proprietary fund:

The Water Supply and Sewer Disposal System Enterprise Fund is maintained for the operations of the water distribution system and sewage pumping and collection systems.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Township has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish *operating* revenue and expenses from *non-operating* items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer Enterprise Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Note I - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

2. Investments

Investments for the Township are stated at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

3. Receivables and payables

In general, outstanding balances between funds are reported as "due to/from other funds", activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade, notes, contracts, and property tax receivables are shown net of an estimated allowance for uncollectibles.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Note I - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Capital assets (continued)

Property, plant, and equipment of the government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	39 years
Building improvements	5-39 years
Infrastructure	15-40 years
Vehicles	5 years
Office equipment	5-7 years
Computer equipment	5 years

5. Accumulated unpaid sick and vacation pay

Accumulated unpaid sick and vacation pay are not accrued by the Township. Substantially all Township employees are paid for unused sick and vacation days annually.

6. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

7. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. Property tax

Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied on December 1, and are payable without penalty through February 28. The Township bills and collects its own property taxes and also collects taxes for the county and several school districts within its jurisdiction. Township property tax revenues are recognized when levied to the extent that they are measurable and available in accordance with accounting standards.

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

8. Property tax (continued)

The taxable valuation of the Township totaled \$584,495,653 for the year ended June 30, 2008, on which taxes levied consisted of .8515 mills for general operating costs, and 1.3697 mills for police services. This resulted in \$474,237 for operating and \$779,735 for police services. These amounts are recognized in the General Fund. The millage for police services was renewed May 15, 2001 for a period of 10 years, 2001 to 2010.

9. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund. Informational summaries of projected revenues and expenditures are provided for the Water and Sewer Enterprise Fund.
2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted on a departmental (activity) basis for the General Fund through passage of a resolution and in accordance with Public Act 621 of 1978 of the State of Michigan.
4. The Supervisor or his designee is authorized to transfer budgeted amounts within General Fund departmental appropriation accounts; however, any revisions that alter the total expenditures of any department must be approved by the Township Board.
5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
6. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
7. The original budget was amended during the year.

Note 3 - Detailed Notes on All Funds

A. Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorized local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks, commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated seven banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$11,196,039 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Repurchase agreements	\$1,016,459	Counterparty

Davison Township

Notes to Basic Financial Statements June 30, 2008

Note 3 - Detailed Notes on All Funds (Continued)

A. Deposits and Investments (Continued)

Interest rate risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, investments consisted of an overnight repurchase agreement of \$1,016,459.

B. Receivables

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special Assessments not yet due (General Fund)	<u>\$814,299</u>	<u>\$ -0-</u>

C. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 851,150	\$ -	\$ -	\$ 851,150
Capital assets, being depreciated:				
Buildings and improvements	1,131,154	173,013	-	1,304,167
Improvements other than buildings	148,281	-	-	148,281
Infrastructure	3,804,525	192,272	-	3,996,797
Furniture and equipment	841,496	148,387	95,402	894,481
Total capital assets being depreciated	5,925,456	513,672	95,402	6,343,726
Less accumulated depreciation for:				
Buildings	(610,197)	(56,732)	-	(666,929)
Improvements other than buildings	(101,036)	(8,583)	-	(109,619)
Infrastructure	(381,426)	(226,139)	-	(607,565)
Furniture and equipment	(533,911)	(84,583)	(83,147)	(535,347)
Total accumulated depreciation	(1,626,570)	(376,037)	(83,147)	(1,919,460)
Total capital assets, being depreciated, net	4,298,886	137,635	12,255	4,424,266
Governmental activities capital assets, net	\$ 5,150,036	\$ 137,635	\$ 12,255	\$ 5,275,416

Davison Township

Notes to Basic Financial Statements June 30, 2008

Note 3 - Detailed Notes on All Funds (Continued)

C. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 900,000	\$ -	\$900,000	\$ -
Capital assets, being depreciated:				
Buildings and improvements	110,417	-	-	110,417
Investment in sewer and water system	16,076,610	1,520,922	-	17,597,532
Furniture and equipment	172,405	25,140	-	197,545
Total capital assets, being depreciated	16,359,432	1,546,062	-	17,905,494
Less accumulated depreciation for:				
Buildings and improvements	(69,493)	(2,321)	-	(71,814)
Investment in sewer and water system	(9,026,593)	(327,666)	-	(9,354,259)
Furniture and equipment	(99,399)	(19,811)	-	(119,210)
Total accumulated depreciation	(9,195,485)	(349,798)	-	(9,545,283)
Total capital assets, being depreciated, net	7,163,947	1,196,264	-	8,360,211
Business-type activities capital assets, net	\$ 8,063,947	\$1,196,264	\$900,000	\$ 8,360,211

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 97,902
Public works	218,398
Public safety	59,737
Total depreciation expense – governmental activities	<u>\$376,037</u>
Business-type activities:	
Water and sewer	<u>\$349,798</u>

Note 3 - Detailed Notes on All Funds (Continued)**D. Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of June 30, 2007 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water and Sewer	<u>\$477,602</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

E. Capital Leases

The Township has entered into a lease agreement in its General Fund as a lessee for financing the purchase of a scanner/copier at a cost of \$14,670. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations are as follows:

<u>Years Ending</u>	<u>Amount</u>
2009	\$ 2,934
2010	2,934
2011	2,934
2012	2,934
2013	489
Total minimum lease payments	<u>\$ 12,225</u>

F. Long-term Debt

The Township issues bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements and installment purchase agreements are also general obligations of the government.

Davison Township

Notes to Basic Financial Statements June 30, 2008

Note 3 - Detailed Notes on All Funds (Continued)

F. Long-term Debt (Continued)

The following is a summary of Business Type long-term debt transactions of the Township for the year ended June 30, 2008:

	Final Payment <u>Due</u>	Interest Rate or <u>Range</u>	Balance at June 30, <u>2007</u>	Issuances (Retirements) <u>During Year</u>	Balance at June 30, <u>2008</u>
Business - Type Activities:					
Enterprise Fund – contracts payable:					
Sanitary Sewer District #1					
Township Lateral	2008	5.0	\$ 40,000	\$ (40,000)	\$ -
Sanitary Sewer District #1					
Davison Township Sub-trunk	2008	4.0-4.9	100,000	(100,000)	-
Genesee County Water Supply					
System #2 Series I	2008	5.0	15,000	(15,000)	-
Total Business – Type Activities			<u>\$155,000</u>	<u>\$(155,000)</u>	<u>\$ -</u>

Deposits payable:

A \$20,000 cash bond was received from Cardinal Industries in June 1987 to be used to maintain a holding pond should Cardinal Industries (or a later owner) default on the maintenance of the holding pond. The holding pond was required before Cardinal Industries could construct a modular apartment complex. The bond would be refunded if the holding pond was no longer needed due to the construction of drains in the area in which the modular apartment complex is located. The cash bond was invested and, per the agreement with Cardinal Industries, the Township General Fund keeps all interest earned on the investment. The deposit is recorded as a liability in the General Fund.

The Township has also received deposits from other developers to ensure completion of various developments within the township. These other deposits held by the General Fund and the Water and Sewer Enterprise Fund equal \$31,661.

Note 4 - Joint Ventures

- I. In September 1979, Davison Township entered into a joint venture with the City of Davison to create a Senior Citizen's Authority. The purpose of the Authority is to provide facilities for recreation and activities for senior citizens residing in the City and Townships. The Authority is governed by a seven-member board appointed by the governing bodies of the City and Townships. The Board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval. The agreement provides that the allocation will be 1/3 of the net expenses split equally between the three municipalities. As of March 2007, a grant was received from Genesee County to be used for the Authority's operations. The grant requires a local match, therefore the units will no longer cover one-third of the costs, but will pay its portion of the local match to the Authority.

During the year ended June 30, 2008, the Township's contribution to the Senior Authority was \$16,542. At June 30, 2008, the Township had a receivable of \$25,262 from the Authority for cash advances to meet operating needs.

All parties have contributed to the cost of the current activity center and share in its ownership on a percentage basis. The majority of the Senior Citizens Authority's capital assets were purchased with federal funds so any income from the sale of these assets would revert to the federal agency.

Davison Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at authority headquarters.

2. In January 1972, Davison Township entered into a joint venture with the City of Davison and Richfield Township to create the Davison-Richfield Area Fire Authority. The purpose of the Authority is to provide uniform and orderly control of fire protection, fire department practices and organizations, and financing within the territorial limits of the three municipalities. The Authority is governed by a seven-member board appointed by the governing bodies of the City and Townships. The agreement calls for each municipality to pay for costs of the Authority by a charge for each fire run to a point within its jurisdictional boundary.

During the year ended June 30, 2008, the Township was billed \$318,579 by the Authority. At year end, the Township owed \$91,617 to the Authority for fire run services.

Davison Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at authority headquarters.

Note 5 - Other Information

Pension benefit plan

The Township has two pension plans, one for union police officers and one for all other Township employees. Benefit provisions and contribution obligations have been established by the Township Board.

a. Union police officers' pension plan:

(1) Plan description:

The Township police officers participate in the Municipal Employees Retirement System of Michigan (MERS) defined benefit plan which is an agent multiple-employer public employee retirement system (PERS). The Township has no fiduciary responsibility for the plan. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Police officers are eligible for full retirement benefits upon completion of 25 years of service, at age 50 or age 60 with six years service. Straight life pension for police officers is calculated as follows: credited service at time of termination multiplied by 2.5% of the member's final average compensation (3 highest consecutive years within the last 10 years of employment), up to a maximum of 80% of final average compensation.

Membership in the plan at December 31, 2007, the date of the latest actuarial valuation, is comprised of 12 active members, 2 inactive member, and 3 retirees.

(2) Funding policy:

The plan provides that the employer/employees contribute amounts necessary to fund the actuarially determined benefits. Police employees are required to deposit 5.00% of all monetary compensation, including overtime. The Township makes employer contributions in accordance with funding requirements determined by MERS' actuary. The Township's current rate is 12.84% of annual covered payroll for police.

Actuarial assumptions:

Valuation date	December 31, 2007
Actuarial cost method	Entry age normal
Amortization method	Level percent
Remaining amortization period	25 years - open
Asset valuation method	10 year smoothed market
Investment rate of return	8.0%
Projected salary increases	4.5% - 12.90%
Includes inflation at	4.5%

Note 5 - Other Information (Continued)

Pension benefit plan (continued)

a. Union police officers' pension plan: – (continued)

(3) Net pension obligation

	Fiscal Year Ended June 30:		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ 76,652	\$ 100,477	\$ 99,592
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

	Actuarial Valuation as of December 31:		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$1,544,868	\$1,868,551	\$1,839,592
Actuarial accrued liability (entry age)	\$2,156,446	\$2,720,600	\$2,391,993
Unfunded AAL	\$ (611,578)	\$ (852,049)	\$ (552,401)
Funded ratio	71.6%	68.7%	76.9%
Covered payroll	\$ 624,151	\$ 807,711	\$ 686,666
UALL as a percentage of covered payroll	97.9%	105.5%	80.4%

b. Non-union pension plan:

(1) Plan description:

The Township's non-union employees and police lieutenant employees participate as a group in the Municipal Employees Retirement System of Michigan (MERS) defined benefit plan which is an agent multiple-employer public employee retirement system (PERS). The plan was established December 1, 2004. The Township has no fiduciary responsibility for the plan. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Employees are eligible for full retirement benefits upon age 60 with eight years service. Straight life pension for the non-union employees and police lieutenants is calculated as follows: credited service at time of termination multiplied by 2.25% of the member's final average compensation (5 highest consecutive years within the last 10 years of employment), up to a maximum of 80% of final average compensation.

Membership in the plan at December 31, 2007, the date of the latest actuarial valuation, is comprised of 28 active members and 2 retirees. The plan was established December 1, 2004 to replace the previous defined contribution plan.

Note 5 - Other Information (Continued)

Pension benefit plan (continued)

b. Non-union pension plan: (continued)

(2) Funding policy:

The plan provides that the employer contribute amounts necessary to fund the actuarially determined benefits. The Township makes employer contributions in accordance with funding requirements determined by MERS' actuary. The Township's current rate is 14.00% of annual covered payroll.

Actuarial assumptions:

Valuation date	December 31, 2007
Actuarial cost method	Entry age normal
Amortization method	Level percent
Remaining amortization period	29 years - open
Asset valuation method	5 year smoothed market
Investment rate of return	8.0%
Projected salary increases	4.5% - 12.90%
Includes inflation at	4.5%

(3) Net pension obligation

	<u>Fiscal Year Ended June 30:</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ 49,455	\$ 107,581	\$ 173,751
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

	<u>Actuarial Valuation as of December 31:</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$2,024,776	\$2,138,961	\$2,710,569
Actuarial accrued liability (entry age)	\$2,187,842	\$3,474,097	\$4,206,042
Unfunded AAL	\$ (163,066)	\$ (1,335,136)	\$ (1,495,473)
Funded ratio	92.5%	61.6%	64.4%
Covered payroll	\$ 1,094,767	\$1,132,911	\$1,318,562
UALL as a percentage of covered payroll	14.9%	117.9%	113.4%

Note 5 - Other Information (Continued)

Pension benefit plan (continued)

c. Post employment benefits other than pension:

The Township provides health benefits to certain employees after they retire or leave office. The ordinance provides that health, medical, and dental care benefits will be provided to eligible retirees if similar benefits are not available to the retiree. All employees and elected or appointed officials, except for those covered under a bargaining unit, age 55 or older with 20 years of continuous service are eligible.

The cost of the benefits is paid entirely by the Township as the costs are incurred. At year end, 9 retirees were eligible to receive these benefits. For the year, \$110,510 was expended in the General Fund to provide these benefits.

Note 6 - Summary Disclosure of Contingent Liabilities

A. Contingent liabilities:

The Township participates in the Department of Housing and Urban Development Community Block Grant Program and other federal grant programs. These programs are subject to compliance audit by the granting agencies. The amount, if any, of expenditures which may be subsequently disallowed by the granting agency cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

B. Tap-in fees advanced from developers:

The Township has a construction advance liability for monies advanced by developers for construction of water or sewer lines benefiting their properties. A liability in the amount of \$1,303,721 exists at June 30, 2008. The tap-in fee, which would normally be charged to the contractor for projects serviced, is applied to the advance. Also, 100% of tap-ins to other land owners in the developer's area and 75% of the tap-in fee charged to anyone who taps into the constructed line outside of the stated development area will be applied against this amount advanced and paid back to the developer. Payments based on the current activity are remitted to the developer semi-annually. After a specified time, the developers will not be entitled to any further use of their advance regardless of whether or not they have used the full amount. Developers' interests in the various tap-in contracts still open at June 30, 2008 will expire during the period of March 2013 to January 15, 2027. At the expiration date of the agreement, any remaining construction advance liability will be reclassified to net investment in capital assets.

Davison Township

Notes to Basic Financial Statements June 30, 2008

Note 7 - Segment Information for Enterprise Funds

The Township maintains an Enterprise Fund which provides water and sewer services. Segment information for the year ended June 30, 2008, is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise Fund</u>
Operating revenue	\$1,533,744	\$ 1,331,003	\$ 2,864,747
Depreciation	175,507	174,291	349,798
Operating loss	(188,560)	(307,508)	(496,068)
Non-operating revenues/expenses	287,165	329,405	616,570
Net income	98,605	21,897	120,502
Property, plant, and equipment:			
Additions	644,292	1,770	646,062
Current assets	2,782,136	2,844,468	5,626,604
Current liabilities	210,616	703,205	913,821
Net working capital	2,571,520	2,141,263	4,712,783
Other liabilities	806,560	497,161	1,303,721
Net assets	6,609,912	5,188,342	11,798,254
Total assets	8,376,248	5,639,548	14,015,796

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omission, and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for coverage of all claims except employee unemployment benefits. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Township pays unemployment claims on a reimbursement basis.

Note 9 - Building Department Revenues and Expenses

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The Act allows for monitoring these funds in a separate activity center within the General Fund and reserving General Fund fund balance for the excess of building departments revenues over expenditures since adoption of the Act. A summary of the current year activity and the cumulative surplus or shortfall generated since July 1, 2000 is as follows:

Shortfall at July 1, 2007	\$ (321,289)
Current year building department revenue	94,811
Less: expenditures	<u>(278,302)</u>
Cumulative shortfall at June 30, 2008	<u><u>\$(504,780)</u></u>

Note 10 - Upcoming Accounting Changes

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pension). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009. Management is currently assessing the impact of this new accounting standard on the Township's financial statement for future reporting periods.

Required Supplementary Information

Davison Township

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Budgeted		Actual	Variance
	Original	Final	Amounts	with Final Budget
Revenue				
Property taxes	\$ 1,315,180	\$ 1,315,180	\$ 1,254,489	\$ (60,691)
Licenses and permits	100,850	100,850	100,364	(486)
Federal grants	20,713	20,713	92,153	71,440
State-share revenue and grants	1,050,000	1,050,000	1,280,349	230,349
Local donations	66,000	66,000	65,243	(757)
Fines	160,000	160,000	64,347	(95,653)
Charges for services	258,302	258,302	228,089	(30,213)
Interest income	250,000	250,000	395,895	145,895
Other income:				
Special assessments	1,873,857	1,873,857	1,984,380	110,523
Miscellaneous	263,200	263,200	285,409	22,209
Total revenue	5,358,102	5,358,102	5,750,718	392,616
Expenditures				
Current:				
General government:				
General government	261,000	261,000	227,061	33,939
Supervisor	145,906	160,906	148,805	12,101
Clerk	214,531	214,531	205,476	9,055
Treasurer	124,788	134,788	125,714	9,074
Township hall and grounds	298,500	308,500	341,145	(32,645)
Assessing department	170,202	180,202	172,780	7,422
Legislative:				
Township board	76,724	86,724	70,005	16,719
Public safety:				
Police	2,329,193	2,329,193	2,226,587	102,606
Fire	310,000	310,000	318,579	(8,579)
Building inspection	291,471	291,471	278,302	13,169
Public works	1,306,120	1,306,120	1,095,199	210,921
Total expenditures	5,528,435	5,583,435	5,209,653	373,782
Net Change in Fund Balance	(170,333)	(225,333)	541,065	766,398
Fund Balance - Beginning of Year	7,840,078	7,840,078	7,840,078	-
Fund Balance - End of Year	\$ 7,669,745	\$ 7,614,745	\$ 8,381,143	\$ 766,398

Davison Township

Report to the Township Board
June 30, 2008

**Plante & Moran, PLLC**

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111 E. Court St.
Flint, MI 48502
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plantemoran.com

To the Township Board
Davison Township

We have recently completed our audit of the basic financial statements of Davison Township (the "Township") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the Township:

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We are grateful for the opportunity to be of service to the Davison Township. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 30, 2008

Report on Internal Control

October 30, 2008

To the Township Board
Davison Township

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Township's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards are to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this **Report on Internal Control** will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Davison Township as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency,

To the Township Board
Davison Township

or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Capital Assets - The Township provided a list of capital assets additions and deletions for the fiscal year; however such list did not include infrastructure added during the year, such as roads and sidewalks. We proposed and management made the necessary adjustments to include such assets in the accounting records.

Interfund Receivable and Payable - As part of the audit adjustments that we proposed and were posted by management to the construction fund were ones to balance the interfund balances. We suggest that the Township adopt a procedure whereby the interfund balances are reviewed and balanced on a periodic basis.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

Accrual Adjustments

We provided significant assistance in identifying and posting accrual adjustments to the accounting records during this year's audit. Accruals represent any adjustments other than cash that impact the accounting records (state-shared revenues, water and sewer unbilled receivable, special assessment receivable, accrued interest, and deferred revenue). We are pleased to assist in this process – our auditors have expertise in accrual adjustments, and can generally assist in a very cost-efficient manner. However, we bring this to your attention since it meets the above definition of a matter to be communicated.

Other Comments and Recommendations

Due to the implementation of the Genesee County Drain Commission new software two years ago, an ongoing variance between the aged receivable subsidiary ledger maintained by the Genesee County Water and Waste and the Township's accounting records existed. The Township's Water and Sewer department worked with Genesee County Water and Waste to resolve the variance. It was concluded that the Genesee County Water and Waste's receivable balance was correct and therefore the Township adjusted their accounting records to agree to the Genesee County Water and Waste's report. Plante & Moran recommends that the Water and Sewer department continue to monitor the activity of the receivable and that any variances noted be researched and corrected monthly.

To the Township Board
Davison Township

This communication is intended solely for the information and use of management, the Board and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "Peggy Haw Jury". The signature is written in a cursive, flowing style.

Peggy Haw Jury, CPA

October 30, 2008

To the Board of Trustees
Davison Township

We have audited the financial statements of Davison Township for the year ended June 30, 2008, and have issued our report thereon dated October 30, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 19, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Davison Township. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 11, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Davison Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2008.

To the Township Board
Davison Township

We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the useful life of capital assets.

Useful lives of capital assets are based upon management's estimate of their life. We evaluated the key factors and assumptions used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management. Recognize state shared revenue payment received in June, adjust unbilled sewer and water receivable, recognize accrued interest receivable and contractor advance activity.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 30, 2008.

To the Township Board
Davison Township

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the organization’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the organization we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the organization’s auditors.

This information is intended solely for the use of the Board of Trustees and management of Davison Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in cursive script, reading "Peggy Haw Jury".

Peggy Haw Jury, CPA

Client: **Davison Township**
 Opinion Unit **Construction Fund and Business Type Activities**
 Y/E: **6/30/2008**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

		Increases (Decreases)				
Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
Known Misstatements:						
A1						
A2						
Estimate Adjustments:						
E	To adjust the the Potters Lake ext contract S-2 for the sale of 100 units of sewer capacity. Because the capacity unit is unknown conclude to prorate depreciation based on capacity selling price divided by historical cost of 580,254.	(67,206)			(53,541)	13,665
B2						
Implied Adjustments:						
C1						
C2						
		-	-	-	-	-
Combined Effect		(67,206)	-	-	(53,541)	13,665

Informational

Upcoming Reporting Changes

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. The Township currently pays for premiums on a pay-as-you-go basis. The Township will need to decide how much of the total obligation to fund which may have an impact on the manner in which the benefit is budgeted.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunded portion must be reported as a liability on the government wide statement of net assets. This valuation will need to be performed by an actuary only if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. Plans with fewer than 100 participants may either hire an actuary, or perform the calculation themselves (at least every three years).

This statement is effective for the fiscal year beginning July 1, 2009. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates. The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the “interperiod equity” issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year’s contribution. So - funding the contribution will actually reduce your long run cost.

The Township currently provides health care to retirees and their beneficiaries.. These rules would require the Township to measure the annual cost that would be required to fully fund this benefit, with a maximum amortization period of 30 years and to report a liability for any amount of annual required contribution not funded. The annual required contribution would need to be determined by an actuary or internally by management using actuarial concepts.

Closing

We would like to thank the Township board for the opportunity to serve as auditors for the Township. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.